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Symmetrical, Flexible Inflation Target Continues to Serve Canadians Well, Says Bank of Canada Senior Deputy Governor Tiff Macklem

Montréal, Quebec—The Bank of Canada's flexible inflation target has served Canada well in both tranquil and turbulent times and remains the right policy framework to address the current economic environment of persistently weak inflation, Senior Deputy Governor Tiff Macklem said today in a lecture at Concordia University's John Molson School of Business in Montréal.

"Inflation targeting was designed against a backdrop of high inflation, but its key features of symmetry and flexibility also give us room to manoeuvre in an environment of disinflation."

Mr. Macklem discussed the various causes of the decline in inflation since 2012. He said that this disinflation appears to reflect a combination of "bad" disinflation stemming from a significant and persistent excess supply in the economy, and "good" disinflation resulting from heightened competition in the retail sector. In theory, monetary policy should look through good disinflation as long as inflation expectations remain anchored, and work to offset bad disinflation. In practice, there is considerable uncertainty surrounding our measurement and projections, making monetary policy more of an exercise in risk management.

"We need to do our best to determine why inflation is below target, but no matter how hard we try, there will be uncertainty about our diagnosis," Mr. Macklem said. "Our work at the Bank of Canada is both to sharpen the analysis as much as we can and, at the same time, to take account of the risks and uncertainties as we determine the appropriate course for monetary policy to achieve our inflation target."

The Senior Deputy Governor highlighted that the floating exchange rate is a key element of the inflation-targeting framework, allowing for a made-in-Canada monetary policy and serving as a buffer against shocks to the economy.

"In light of the recent depreciation of the Canadian dollar, it bears stressing that the Bank does not have a target for the exchange rate—it has an inflation target. The exchange rate is determined in markets, and we neither promote any specific value for the Canadian dollar, nor thwart its movements."